mdc Dairy Market Update

Farm income increases - due to SP

Provisional net dairy farm incomes/profitability for UK dairy farms have risen by 10% in 2005/06 to an average of £26,000/farm; according to Defra figures. The primary reason for this increase is the inclusion of the Single Payment (SP) as part of the income.

Based on a typical production of 700,000 litres, the SP would be in the region of £10,000. Once this is taken into account income/profitability based on the milk price alone would be approximately £16,000. This is the lowest since 2002/03, when income was around £14,000.

Farmgate prices stable

The provisional 2005 average milk price is 18.46ppl – almost identical to 2004 and the highest average price since 2001. There are a number of reasons why milk prices have remained relatively stable, including retail price increases (although there were a number of subsequent price cuts), higher butterfat levels and bonus payments on level supply contracts.

However, despite milk prices remaining relatively stable the profitability of producing milk appears to have fallen year-on-year, once the Single Payment (SP) has been stripped out. This is due to increasing costs and a stable price combining to reduce profit margins.

Dairy sales on the increase

Retail sales of dairy products are increasing. Milk, cheese, butter, cream and yogurt all show year-on-year increases; according to TNS figures.

52 Week ending 1.1.06	000 tonnes	% Change	Average Price per unit	% Change
Liquid Milk*	4,787,100	+1	0.55***	+12
Cheese	365.2	+2	5.18	+1.4
Butter	394.4	+1	2.16	+3
Cream*	81,039	+2	2.47	-1
Yogurt**	3,119,084	+7	0.29	0

*000 litres **000 packs ***Includes recent retail price increase

Part of the reason for the growth in dairy consumption is increasing disposable income. Demand for higher value dairy products (Yogurt, dairy desserts, ice cream, cheese, etc) is known to be elastic (i.e. increases in income increase demand for a product). Therefore income growth will affect demand for high value dairy products.

Other reasons include intense competition for many dairy products (especially within the large branded sector over the past year). This has helped keep overall product prices, apart from liquid milk, relatively stable. The marketing of health-related benefits will also have affected demand, especially within the yogurt market, and the increased level of innovation in some dairy categories has also helped stimulate demand.

In context:
The growth in UK dairy consumption is good news for dairy farmers, as it will hopefully increase the amount of milk going into premium products. However, it is likely that a significant proportion of this growth (apart from liquid milk) is being met by imports. Unfortunately, the UK does not produce or export as much added value products as some other countries.

EU predicts strength in dairy markets

The latest EU Commission projections expect the EU dairy market to perform relatively well over the foreseeable future. There is an expected decrease in the production of butter and SMP. However, this will be largely compensated by an expected 9% increase in production of cheese between now and 2012. The majority of this increase will be absorbed within the EU as cheese consumption is set to increase by 8% to 18.3kg per capita over the same period. This is good news as cheese tends to return better prices than commodity products.

The EU dairy sector is also predicted to benefit from continuing good world economic growth leading to firm demand for dairy products; albeit at lower levels than during the last two years. Other benefits could be further increases in EU consumer confidence, leading to rising demand. However, it has warned that macro economic shocks such as increasing oil costs, significant fluctuations in exchange rates could affect product demand and prices, partly through a general impact on consumer confidence.

Milk production starts to increase

Milk production for January was 1.13bn litres. This is 10m litres below January last year. However, production has been increasing faster this year, at 3.1% month-on-month

For more information
on any of these items please go to
www.mdcdatum.org.uk

The Dairy Market Update is published once a fortnight, and contains information available via MDC Datum in order to provide a summary of conditions in the dairy market. As with all parts of MDC Datum, we endeavour to publish the information that is required by readers and users – please contact us with your suggestions.

For enquires regarding this information, or to receive a free copy of the Dairy Market Update by fax or e-mail every fortnight then please send your name, address, and e-mail or fax number to: MDC Datum, MDC, Stroud Road, Cirencester, GL7 6JN; or e-mail ken.boyns@mdc.org.uk Phone: 01285 646 512
Sources: Agri Fax, Agra CEAS, De Nederlandsche Bank, DIN Consultancy, DEFRA, Eurostat, FT, MDC, RPA, TNS, Kingshay Farming Trust

compared with only 2.4% last year.

Part of the reason for this increase is the effect of increased feed usage. An industry journal (Farm Brief) has stated that demand for dairy concentrates has increased recently. This increase in feed usage has possibly started to compensate for the effect of poor quality silage, which affected yields earlier in the winter. The increased demand for feed is likely to be due to relatively stable milk prices and the fact that reaching quota appears unlikely this year.

At what rate production continues increasing, and how high peak production is, will depend primarily on the weather. If it stays mild cows can be put out to grass early. However, even if cows do go out early, it is questionable whether average yield increases are currently compensating for the decrease in the number of cows in the national herd. It is also likely that the effect of level supply contracts will start to become more apparent this year, all of which are likely to impact on the size of peak we will eventually see this year.

Market currently good for cull cows

Average prices for cull dairy cows have increased by 9% to around 53pence/kg (liveweight) since the end of the OTMS. Industry commentators have reported there has been good demand for cull cows (especially from Ireland). It also appears farmers put a significant number of cows through the OTMS prior to its end. Therefore, not as many cull cows have come on the market as might have been expected. Farmers may also be trying to keep cows milking due to the fact that going over quota is not a risk.

Going forward, industry commentators have suggested the market may remain relatively stable. This is due to a number of factors including strong demand within the UK, declining prime beef supplies and demand for UK beef from the EU when exports open (due to a decrease in production in the EU).

To understand costs and profits from finishing cull cows MDC has developed a Cull Cow Calculator. Farmers can use it to calculate whether or not it is worth finishing cull cows when considering the extra feeding, housing, and labour input. Please click here to access the calculator.

EU milk prices decrease

The average EU milk price for the 17 European dairies surveyed by LTO in 2005 was the equivalent of €29.23/100kg (19.3ppl); 2.4% less than 2004. All dairies experienced a reduction in their milk price in 2005 compared with 2004. Part of this fall will be due to a drop in most commodity product prices, especially butter.

€/100kg*	2004	2005	% Change
Kymppi (Finland)	37.74	34.13	-4.5
Danone (France)	30.35	29.77	-1.9
Arla Foods (Denmark)	29.79	29.20	-2.0
Campina (Holland)	29.32	29.16	-0.5
Nord Milch (Germany)	27.65	27.25	-1.4
Arla Foods (UK)	27.17	26.96	-0.8
Glanbia (Ireland)	27.31	26.71	-2.2
First Milk (UK)	24.83	24.16	-2.7
Average Price	28.54	29.23	-2.4

*Price based on 4.2% fat, 3.35% protein, 350,000kg/year

After the two Dutch dairies/co-ops (Campina and Friesland) Arla Foods UK had the smallest reduction in its milk price, year-on-year. This will predominantly be due to the retail price increases in March '05, although milk prices were subsequently cut. First Milk continues to pay the lowest price of the 17 dairies/co-ops.

In context:
EU milk prices are likely to remain under pressure in the coming year. The reduction in intervention prices and the likely reduction in export refunds are likely to make returns from commodity markets even more difficult.

Quota Prices (4.00%)	**Clean**			**Leased**			**Average Farmgate Milk Price: December**					
Day End 16/02/06	4.54ppl			0.10ppl			2005	19.38ppl		2004	18.92ppl	
Wholesale Dairy Prices	**Butter (unsalted)**			**Skimmed Milk Powder**			**Mild Cheddar**			**Bulk Cream**		
17/02/06 £=$1.7352 **17/02/06 €=£0.6849**	Jan 06	Dec 05	Jan 05	Jan 06	Dec 05	Jan 05	Jan 06	Dec 05	Jan 05	Jan 06	Dec 05	Jan 05
UK £/tonne	1,780	1,800	1,990	1,360	1,390	1,400	2,100	2,100	2,100	7,90	830	900
World £/tonne	1,104	1,146	1,065	1,189	1,260	1,198	1,528	1,633	1,491	N/A	N/A	N/A
Retail Prices	**Liquid Milk (retail) 4 pint poly bottle** (ppl equivalent)			**Liquid Milk (doorstep)** (ppl equivalent)			**Butter** Branded (p/250g)			**Mild Cheddar** Non-branded (p/kg)		
Jan 06	52.3			82.7			82			485		
% Change vs Jan 05	+7.4			+3.9			1.2			+8.3		

Sources: Agri Fax, Agra CEAS, De Nederlandsche Bank, DIN Consultancy, DEFRA, Eurostat, FT, MDC, RPA, TNS, Kingshay Farming Trust